

South Holland District Council

Financial Report for the Quarter Ending 31 December 2018

This report has five sections

- Section 1 – General Fund Revenue budget
- Section 2 - HRA Budget
- Section 3 - Reserves
- Section 4 – Capital budget
- Section 5 – Treasury update

General Fund Revenue Outturn

The forecast outturn as at 31 December 2018, including the unallocated Moving Forward savings target, is an estimated underspend of £436k against the approved budget for 2018-19 of £13m.

This is comprised as follows:

• Net Service Underspend	£ (33k)
• Additional Financing Income	£ (508k)
Net Service Underspend	£ (£541k)
• Moving Forward Savings Target	£ 105k*
Net Underspend	£ (£436k)

*The original moving forward target of £985k has been reviewed and a balance of £105k is sitting in Corporate Improvement, an unallocated target is as a result of double counting and savings already being built into the base budget, this position will be continually reviewed throughout the year and resolved as part of the year end process.

The following revenue budget journals have been processed during Quarter 3 and reflected in the outturn report:

Service	Detail	Amount (£)
Delivery Unit	Asset Review – Resourcing Budget Stage 2 Technical Advice and Project Support funded from Investment and Growth Reserve	£68,000
Human Resources	Additional phase 3/ITrent work funded from Transformation Reserve for 18-19	£5,400
ICT	Innovation and Change programme manager funded for 24 months from 03/09/18 from Transformation Reserve	£19,000
ICT	Office 365 Additional Revenue Spend	£2,500
Total		£94,900

Based on the information as at 31 December 2018, Table 1 below details the forecast outturn against the approved budget.

Significant variances to the approved budget and movements are detailed in the notes below.

Table 1 – General Fund Revenue Outturn

Service Area	Note	Revised Budget at Q3 £'000	Forecast Out-turn at Q3 £'000	Forecast Variance at Q3 £'000
Commercialisation				
Commercialisation	1	397	345	(52)
Economic Development		121	124	3
Finance		543	541	(2)
Revenues and Benefits	2	473	472	(1)
Total – Commercialisation		1,534	1,482	(52)
Place				
Assets and Property		22	17	(5)
Building Control	3	22	(35)	(57)
Community Development	4	1,114	1,146	32
Environmental Services	5	3,078	3,354	276
Housing	6	181	219	38
Planning	7	(228)	(520)	(292)
Spalding Special Expenses	8	44	49	5
Investment properties		(152)	(148)	4
Total – Place		4,081	4,082	1
Strategy and Governance				
Corporate Improvement and Performance		128	129	1
Communications		124	129	5
Public Protection		413	414	1
Corporate Management	9	562	586	24
Democratic Services		1,005	998	(7)
HR		741	740	(1)
IT and Customer Services	10	1,174	1,185	11
Total - Strategy and Governance		4,147	4,181	34
Statutory recharge to the HRA for support services (*)		(1,461)	(1,440)	21
Internal Drainage Boards & Parish Precepts		3,178	3,178	0
Investment Income	11	(229)	(266)	(37)
Capital and Other Adjustments		0	0	0
Transfers to/from Reserves		1,814	1,814	0
Total Cost of Services		13,064	13,031	(33)
Financing				
Government Grants	12	(2,213)	(2,374)	(161)
Council Tax		(5,721)	(5,721)	0
Retained Business Rates	13	(5,025)	(5,372)	(347)
Total Financing		(12,959)	(13,467)	(508)
Net Service Variance		105	(436)	(541)
Moving Forward Savings Target (**)	14	(105)	0	105
Net Variance		0	(436)	(436)

() Support service recharges are a non-controllable cost to budget holders, and are therefore not reported as part of the service analysis above. An adjusting line has been added to show the value of recharges to the HRA, for support services and corporate management (including the debt management recharge); a corresponding debit entry is showing in the HRA table below.*

*(**) The Moving Forward Service Target represents Moving Forward savings assumptions built into the budget but not yet allocated to services or work streams. Managers will be tasked with identifying projects and activities to meet this savings target, but until then it is a risk to the Council.*

Notes to Table 1:

1. Commercialisation (£52k) underspent.

- The Delivery Unit is forecast to be overspent by £11k. Staff costs (including Agency) in the Delivery Unit are forecast to be £74k under budget due to continuing issues with recruitment to the team. In addition, contractor costs are forecast to be £31k below budget and Shared Management income £11k over budget. This is off-set by a forecast reduction in use of reserves by £127k to fund the team.
- Planning Policy is forecast to be underspent by £41k due to vacant posts partially off-set by agency staff and recruitment costs.
- Strategy and Enabling is forecast to be underspent by £22k due to delays in recruitment partially off-set by agency staff costs, reduced Shared Management income and reduced recharges to the HRA, Capital and Welland Homes.

2. Revenues and Benefits (£1k) underspent

- A net overspend in Rent Rebate payments of £14k is off-set by a saving in External Audit fees, reduction in Bad Debt allowance and additional DWP Grant income.

3. Building Control (£57k) underspent

- The forecast reflects lower contractor costs for external plan checking now being carried out in-house, fee income above budget and other minor underspends across a range of expenditure codes.

4. Community Development +£32k overspent

- An overspend in staff costs of £36k is due to variances relating to salaries, vacancy factor, agency and other staff related costs.
- There are various other off-setting over and under spends netting to (£4k) underspend.

5. Environmental Services +276k overspent

- Salary Efficiency Target £49k, allocation of this target to be reviewed for positions that must be filled all year for core service delivery and is currently unachievable;
- Loss of car park income of £63k resulting from delay in replacement of car park machine and reduction in car parking ticket purchases;
- Market stall income £24k reduction due to a decreased uptake of market stall rentals throughout the year;
- Premises costs overspent £16k due to increased water consumption for road sweepers during hot weather;
- Fuel cost pressure £45k given the increasing fuel costs;
- Garden Waste £42k shortfall due to reduced take up and changes in service provision
- Sharps collection pressure £11k as an increase in the request for boxes has been seen;
- Insurance pressures of £16k
- Other operational cost pressures across the service netting to £10k.

6. Housing +£38k overspent

- Additional resourcing requirements for the team, due to additional work as a result of the Homelessness Reduction Act, partially funded from Homelessness grants. Also Homelessness B & B Accommodation up significantly again due to the implications of the Homelessness Reduction Act.

7. Planning (£292k) underspent

- Planning Application fees have increased by £170k due to an increased number of large housing applications, although prudently forecast in Q2 the income level remains buoyant.
- Forecast Agency costs have reduced by £72k and professional & contractors by £37k.
- Other minor changes in over and underspends netting to £13k underspent.

8. Spalding Special Expenses +£5k overspent.

- There is a budget pressure relating to re-wire of the Halley Stewart pavilion £9k. There are other minor under and over spends totalling £4k net under budget.

9. Corporate Management +£24k overspent

- This reflects the vacancy savings target built into the budget of £15k, recruitment costs of £12k, agency costs of £8k and travel cost of £13k, partially off-set by an increased recharge to the HRA.

10. IT and Customer Services +£11k overspent

- This is due to additional hardware maintenance and contractor costs.

11. Investment Income (£37k) over-achieved

- This figure is the same as that reported in Quarter 2, based on based on current investment returns. The position is likely to improve if LA investment rates hold at current levels.

12. Government Grant (£161k)

- Forecast additional s31 grant relating to Business Rates and central government levy account repayment

13. Retained Business Rates (£347k).

- The Council was required to pay an additional tariff of £331k to the government due to a change in the business rates revaluation adjustment. This was a late notification as part of the settlement for 2018/19 and it was budgeted for as part of the 2018/19 budget. However, as part of the closure of accounts this was accrued back into the 2017/18 accounts. CIPFA issued advice that this is how it should be treated in the 2017/18 accounts as the adjustment related to the revaluation with effect from 1 April 2017.

Housing Revenue Account

The Q3 forecast position is a £95k decrease in the budgeted surplus for the year, which is a £8k adverse change on the outturn position reported in Q2. The notes below Table 2 explain the main variances to the Budget.

Table 2 – HRA Revenue Outturn

Service Area	Note	Budget £'000	Forecast Outturn £'000	Forecast Variance £'000
Rent Income – Dwellings		(14,713)	(14,713)	-
Charges for Services and Facilities	1	(1,154)	(1,195)	(41)
Contributions to Expenditure	2	(37)	(17)	20
Total Income		(15,904)	(15,925)	(21)
Repairs and Maintenance	3	3,156	3,152	(4)
Supervision and Management	4	2,693	2,754	61
Rents, rates, taxes and other charges	5	77	61	(16)
Depreciation	6	2,923	3,058	135
Movement in the allowance for bad debts	7	169	169	-
Statutory recharge to the HRA for support services	8	1,461	1,461	-
Total Expenditure		10,479	10,655	176
Contribution from Operations		(5,425)	(5,270)	155
Investment Income	9	(62)	(122)	(60)
Interest Payable on £67.456m		2,348	2,348	-
Capital expenditure charged in year		-	-	-
Other Adjustments		-	-	-
Net (Surplus)/Deficit		(3,139)	(3,044)	95

Notes to Table 2:

- Charges for Services and Facilities (£41k) underspent** – Lifeline income within sheltered housing is £55K above budget but in line with last year. Income from Community centres is demand driven and is forecasting to be £13k below budget.
- Contributions to Expenditure – +£20k overspent** - £10k recharge of costs to outside bodies will be recovered under repairs and maintenance below and court income is expected to be £10k lower and related expenditure will be comparatively less.
- Repairs and Maintenance (£4k) underspent** – Residual costs on last year's place review (£69k) are offset by lease payments savings on CSU vans (£47k) and savings on Furniture and Equipment (£24k).
- Supervision and Management +£47k overspent** – £47k for the HRA Accountant was agreed to be funded by the HRA, post last years budget, and a General Fund charge for £30k for footpath lighting has been added. This is set off by savings on Cesspool emptying £19k, and £11k income from a restricted Covenant. Following a review of the allocation of Bank Charges, an additional £14k has been allocated to the HRA
- Rents Rates Taxes and Other Charges (£16k) underspent**– Actual levels for sheltered housing council tax less than budgeted and budgeted charges for Short Street not materialising.
- Depreciation – +£135k Overspent**. Effect of revaluations, additional ICT Infrastructure last year and amortisation of Intangible assets.
- Movement in the allowance for bad debts +0k** – Provision was set high due to impact of universal credit but could be reassessed following information received regarding the collection of tenants rent post-UC, forecast kept at budget level.
- Statutory recharge to the HRA for support services** – The forecast is as budgeted
- Investment Income (£60k) additional income** - Increased interest rate returns.

RESERVES

Table 3 – General Fund Reserves

Reserve	Balance 31 March 2018 £'000	Contributions to Reserve £'000	Use of Reserve £'000	Balance 31 March 2019 £'000	Comments
Transformation	(599)		509	(90)	Use – Priory Road self-serve portals £10k; GIS system £13k; Car Park machines £38k; Strategic Property advice £25k; Leisure provision £19k; National Graduate Trainee Scheme £32k; EMT Development fund £4k; iTrent Phase 3 £5k; Interim Programme Manager £19k Asset Review £100k; Moving Forward initiatives to be identified £244k
Investment and Growth	(5,218)	(1,007)	1,371	(4,854)	Contributions - New Homes Bonus £1,007k Uses – Grounds Maintenance vehicles £46k; HIF programme manager £53k; Kings Road access legal costs £13k; Garden Waste collection service expansion £90k; Garden Waste vehicles £160k; Northern Spalding SUE £10k ; Delivery Unit resourcing £110k; Priory Road Accommodation £10k; Grounds Maintenance Equipment Replacement £46k; Priory Road Heating and Access £160k; Planning for Growth £15k; Asset Review £68k; Capital purchases £500k; Office 365 capital £45k
Earmarked Grants	(313)		107	(206)	Uses – HCA Capacity Funding £64k; Flexible Homelessness Reduction £43k

Reserve	Balance 31 March 2018 £'000	Contributions to Reserve £'000	Use of Reserve £'000	Balance 31 March 2019 £'000	Comments
Council Tax	(1,299)	(722)	374	(1,647)	Contributions – Business Rates Surplus from 2017/18 £722k Uses – South Holland Centre Emergency Works £250k; Spalding Special £5k; Data Protection Officer (Shared) £28k; Pride in South Holland £91k;
Replacement & Refurbishment	(189)	(136)	161	(164)	Contributions – annual budget contribution (£136k). Uses - Planned Maintenance use of Reserve to support in-year annual programme £77k; Ayscoughfee Hall fire safety works £53k; Condition Surveys £31k
Total Specific GF Reserves	(7,618)	(1,865)	2,522	(6,961)	
General Reserve	(2,078)			(2,078)	
Total Reserves	(9,696)	(1,865)	2,522	(9,039)	

Table 4 – Housing Revenue Account Reserves

	Balance 31 March 2018	Contributions to Reserve	Use of Reserve	Balance 31 March 2019	Comments
	£'000	£'000	£'000	£'000	
HRA Working Balance:	(12,752)	(3,044)		(15,796)	Transfer to MRR of forecast HRA surplus
HRA Insurance Reserve	(200)	0	0	(200)	
Major Repairs Reserve	(6,435)	(3,058)	5,065	(4,428)	HRA depreciation contribution to MRR is used to fund the capital programme in future years. The transfer from MRR in-year is being used to fund 18/19 capital programme spend
	(19,387)	(6,102)	5,065	(20,424)	

CAPITAL PROGRAMME

Table 5 and 6 below and the following notes detail the forecast outturn position for the GF and HRA capital programmes. This is based on the revised capital programmes as approved in the Q1 finance report.

Table 5 – General Fund Forecast Capital Outturn

Project	Note	Revised Budget 2018/19 £'000	Forecast Outturn 2018/19 £'000	Variance (under)/ overspend £'000
Disabled Facilities Grants	1	585	400	(185)
Decent Homes Unfit and Disrepair	2	75	25	(50)
Welland Homes	3	1,708	1,696	(12)
GIS System	4	18	21	3
ICT Infrastructure		205	205	-
Office 365 Additional Spend	5	45	45	-
Self Serve Reception		10	10	-
Smart Screens		27	27	-
Members ICT Equipment Refresh		45	45	-
Garden Waste (vehicle)	6	181	160	(21)
Car Park Machines		46	46	-
Grounds Maintenance	7	38	34	(4)
Grants for Growth		896	896	-
South Holland Centre		250	250	-
Castle Sports		18	18	-
Shared Public Protection Software		109	109	-
Crease Drove Industrial Project		70	70	-
Priory Road – Heating and Access		160	160	-
Priory Road – Fire Doors and Access		24	24	-
Capital Acquisitions re Growth & Commercialisation	8	500	500	-
Asset Investment		143	143	-
Total Approved Schemes		5,153	4,884	(269)
Financed By:				
Capital Receipts		302	302	-
Capital Grants and Contributions		1,620	1,385	(235)
Internal Borrowing		1,708	1,696	(12)
Revenue Resources		1,523	1,501	(22)
		5,153	4,884	(269)
Schemes Subject to Approval				
Digital Vision		302	-	(302)
Total		302	-	(302)
Financed By:				
Capital Receipts		302	-	(302)
Revenue Resources		-	-	-
		302	-	(302)
Total All Schemes		5,455	4,884	(571)

Notes to Table 5:

1. **Disabled Facilities Grants (£185k)** – Forecast expenditure is based on current scheme referrals from LCC. (Any unused grant will be transferred to the capital grants unapplied reserve for future spend).
2. **Decent Homes** – Unfit and Disrepair (£50k) - Review of forecasted spend
3. **Welland Homes – (£12k) Estimated** £1,638k spend on Parkside £980 and London Road £716k.
4. **GIS System +£3k** – Upon system implementation further requirements were identified. 50% of the additional sums required has been funded by a capital contribution from Breckland.
5. **Office 365 Additional Spend** – Amendment to the Capital programme to support deployment of Office 365
6. **Garden Waste (£21k)** – Vehicle costs less than estimated.
7. **Ground Maintenance Equipment (£4k)** – Grounds Maintenance Equipment less than estimated.
8. **Commercialisation** – New budget has been created to facilitate the regeneration, commercialisation and delivery of housing and commercial return.

Other potential future schemes identified through Capital Working Group and ICT/Customer Governance Board

Several schemes have been identified at the various working groups which may require the Capital programme to be amended in the future. These include:

1. Replacement of the CRM system (2019/20)
2. Implementation of vehicle Charging Points
3. LED Lighting upgrades
4. Digitalisation programme – funding requirements

Table 6 – Housing Revenue Account Forecast Capital Outturn

Project	Note	Revised Budget 2018/19 £'000	Forecast Outturn £'000	Variance (under)/ overspend £'000
Central Heating Upgrade	1	1,614	1,540	(74)
Kitchen and Bathroom Replacement	2	1,169	1,160	(9)
Electrical Upgrade	3	156	130	(26)
Gutters		263	298	35
Council House – Re-Roofing		425	425	-
Doors and Windows	4	3	-	(3)
Chimneys	4	252	-	(252)
Paths and Drives	4	36	30	(6)
Boundary Walls	4	90	-	(90)
Fees		201	201	-
Decent Homes		4,209	3,785	(425)
Sewerage Treatment Plant		100	97	(3)
Car Parks		65	-	(65)
The Square		187	95	(92)
Major Area Schemes		352	192	(160)
Housing IT System	5	150	41	(109)
ICT Strategy	5	51	-	(51)
IT/System		201	41	(160)
Major Adaptations	6	408	350	(58)
Aids & Adaptations		408	350	(58)
CSU Vehicle Replacement	7	253	-	(253)
CSU Vehicle Replacement		253	-	(253)
Ground Maintenance		12	12	-
Environmental Services		-	12	-
Weston Redevelopment Scheme		250	244	(6)
Purchase of Units	8	2,000	647	(1,353)
Severn Road Development Scheme	9	30	-	(30)
Affordable Housing		2,280	891	(1,389)
Total Approved Schemes		7,715	5,271	(2,444)
Financed By:				
Capital Receipts		604	72	(532)
Shared Ownership Sales Proceeds		-	134	134
Direct Revenue Funding		-	-	-
Major Repairs Reserve		7,111	5,065	(2,046)
Grants and Contributions		-	-	-
Total Funding		7,715	5,271	(2,444)

Notes to Table 6:

1. **Central Heating (£74k)** – Programme valuation reduced.
2. **Kitchen and Bathroom Replacement (£9k)** – Capital forecast reviewed as a result of tenant refusals during Qtr.1 and Q2. Programme revised and updated for Qtr.3.
3. **Electrical Upgrade (£26k)** – Smoke Alarm and Electrical upgrade Capital Schemes combined to achieve savings.
4. **Chimneys, Paths/Drives, Boundary Walls, Car Parks, Smoke alarms and The Square** – Contracts on procurement planner, intention to spend the budget but will need monitoring to see when the works start on site and revising this figure if necessary. Smoke alarms forecast included in electrical upgrade programme resulting in variance.
5. **ICT Strategy (£160k)** – £51k - Revised infrastructure replacement Capital Bids submitted for 2019/20 Estimate process. £109k - Additional Funding approved for Northgate Housing System
6. **Aids & Adaptions (£58k)** - Programme is demand-led due to the nature of the works.
7. **CSU Vehicle Replacement** – Replacement of current leased vehicles with purchased vehicles. This will now carry over into 2019-20.
8. **Weston Redevelopment - Original budget was £1.0m.** The project is behind plan and only £244k will be spent this year. The project should be completed in 2019/20 within the business Plan timescale
9. **Purchase of Units – (£1,353k)** Only one of the identified three proposed S106 sites will be delivered in 2018/19, a further site will be delivered in 2019/20 (£782k) and the third in 2020/21 (£280k), leaving £291k of the £2.0m available.

Capital Receipts

There have been 14 right-to-buy receipts in the year to date, resulting in total net receipts of £865k. There is £682k of 1-4-1 receipts available up to the end of Q3 2018/19.

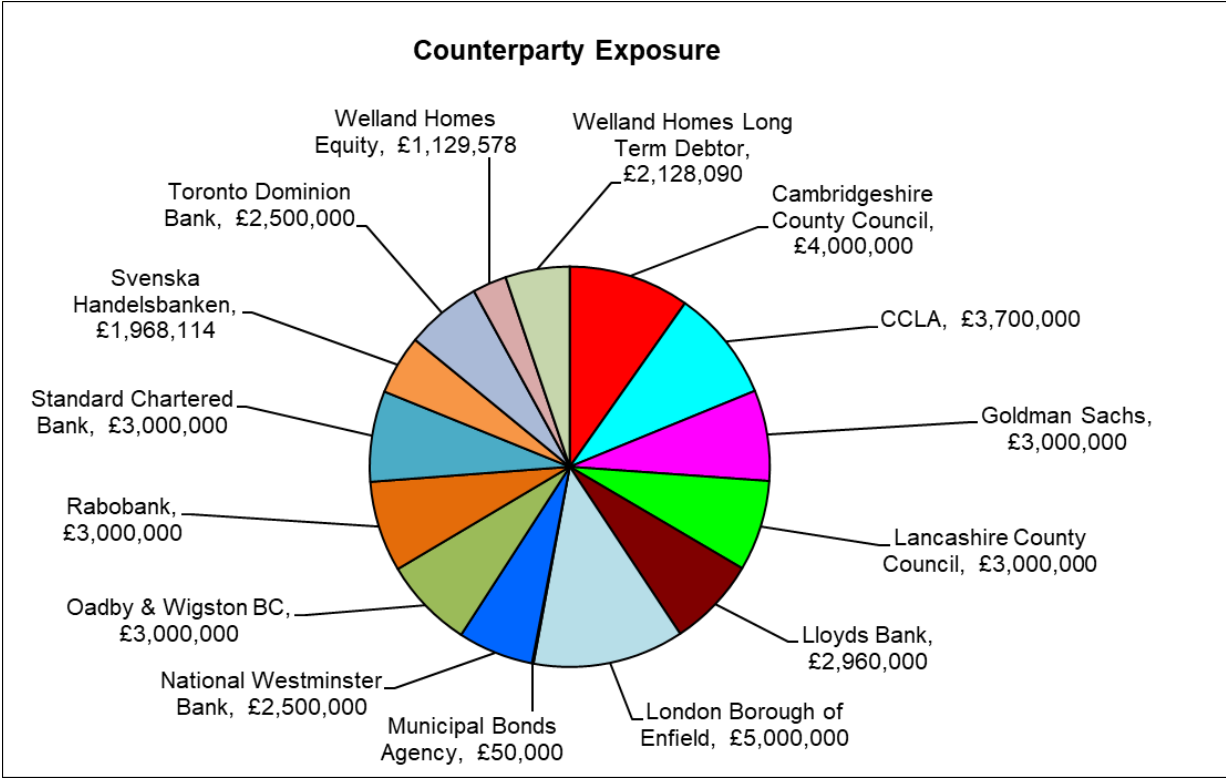
Treasury

Security

The Council has not adopted any formal benchmarks for the management of risk as Officers believe that decisions on counterparties and maximum investment levels are adequate to monitor the current and trend positions and amend the operational strategy to manage risk as conditions change. The Council uses the creditworthiness service provided by Link Asset Services which provides a maximum duration for investments depending on the colour rating calculated for each financial institution.

All investments held by the Council were within the recommended maximum duration.

The chart below shows how the Council’s funds are spread between differing counterparties.

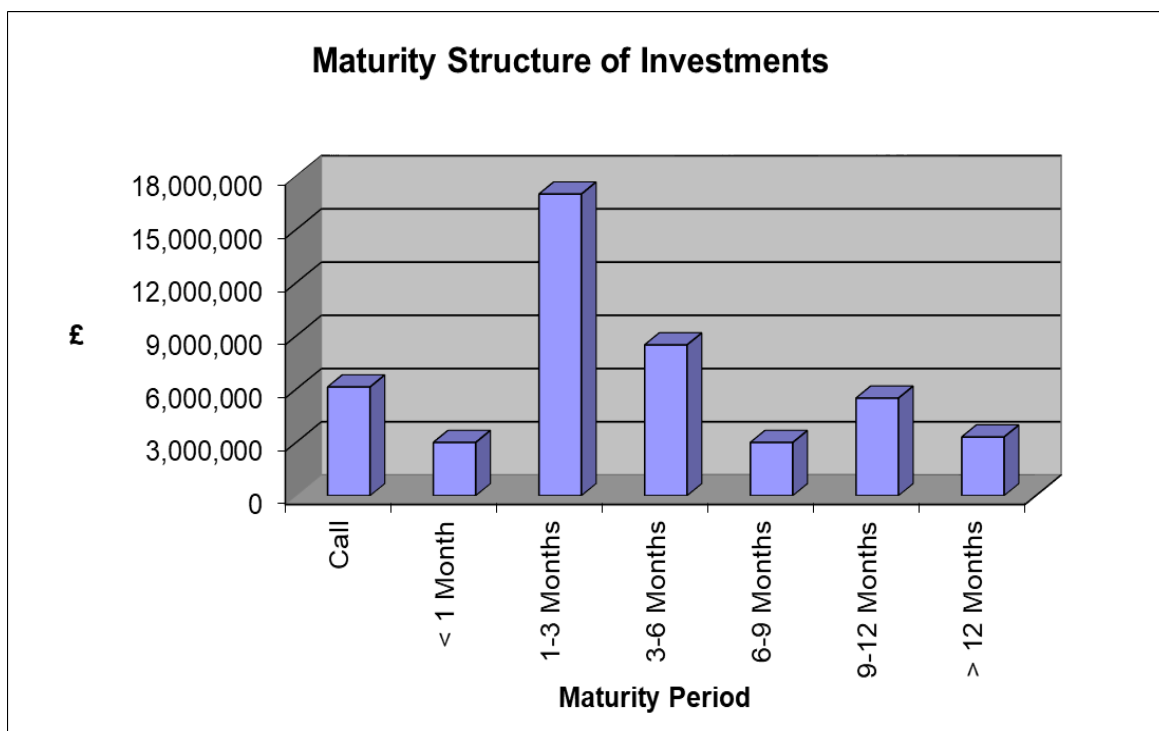


Cash

The Council’s average level of deposits during 2018/19 to date was £44.7m. As at 31 December 2018 investments held were £46.4m of which £6.15m was instant access cash available to meet cash flow requirements. Longer term investments were made up of:

- £37m - short term investments up to 12 months
- £1.13m - Welland Homes equity
- £50k – Municipal Bond Agency Equity
- £2.128m - loans to Welland Homes

The following chart shows the amounts held in relation to the remaining period to maturity.



Yield

Budgeted Interest for 2018/19	£258,000 (£196,000 GF, £62,000 HRA)
Actual Interest achieved to Q3 2018/19	£301,471 (£212,136 GF, £89,335 HRA)
Projected Outturn 2018/19	£410,000 (£287,520 GF, £122,480 HRA)
Target yield (Average 3 month LIBID)	0.650%
Actual Yield achieved for 2018/19	0.894%
Actual Yield achieved for 2017/18	0.590%

The increased levels of investment interest achieved can be attributed to higher levels of investment balances being held and also higher than anticipated interest rate levels in the market, in particular the inter-authority rates which are now higher than those offered by financial institutions.

External Borrowing

The Council borrowed £67.456m from the PWLB on 28th March 2012 to meet its obligations under the Housing Revenue Finance Reforms. This was borrowed for a period of 50 years on a maturity basis at a rate of 3.48%. No new borrowing has been undertaken during the financial year.